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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 002094

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TAGS: [ECON](#) [ETRD](#) [PGOV](#) [CH](#) [TW](#)
SUBJECT: PRESIDENTIAL CANDIDATES' CROSS-STRAIT ECONOMIC
VISIONS

REF: A) TAIPEI 01202 B) TAIPEI 01670

Classified By: AIT Acting Director Robert S. Wang, Reasons 1.4 (b/d)

SUMMARY

11. (C) In the run-up to Taiwan's 2008 presidential election, KMT candidate Ma Ying-jeou and DPP candidate Frank Hsieh continue gradually to unveil their prospective cross-strait economic and trade policies. Both Ma and Hsieh support general liberalization of cross-strait economic relations in the areas of investment, direct transportation links and tourism. They differ, however, on the extent of liberalization and the best strategy to achieve it. Overall, Ma proposes more extensive relaxation of restrictions on investment and tourism, and supports running mate Vincent Siew's concept of a "common market" with China, although he acknowledges this would take time to implement. Hsieh has not publicly specified what measures he would take to enhance cross-strait economic ties, although he has stated he would not allow mainland investment in Taiwan's high technology and agricultural sectors. Hsieh's advisors say he would, if elected, implement economic policies that would strengthen Taiwan's economy without compromising the DPP's advocacy of a strong Taiwan "identity." Ultimately, the extent to which either candidate will be able to effect his proposed cross-strait policy will depend on the new president's relationship with Beijing, as any significant change in the cross-strait economic relationship will require reciprocal effort. End Summary.

KMT AND DPP CANDIDATES BOTH SUPPORT LIBERALIZATION

12. (C) As campaigning for Taiwan's March 22, 2008 presidential election intensifies, the issue of Taiwan's future economic relations with China is emerging as an important factor in the campaign. While neither Ma Ying-jeou nor Frank Hsieh (Chang-ting) have formally announced their campaign platforms, and although the presidential campaign will not formally begin until February 23, four weeks before the election, economic themes are beginning to emerge. Ma campaign staffer John Feng told us that Ma would formally unveil his presidential campaign platform in late September. Both candidates are on record favoring liberalization of cross-strait economic relations. The differences between the two camps centers on the extent and focus of measures to

relax investment, travel and trade ties.

13. (C) In a June 5 meeting with leaders of an association of Taiwan-based mainland investors, Ma stated he would, if elected, work to "normalize" cross-Straits economic and trade relations, including completing the "three links", reducing restrictions on investment in China, and negotiating investment protection and tax agreements with Beijing. In an August 20 meeting with representatives of the U.S.-China Economic and Security Review Commission (USCC), Ma outlined his plan for a "comprehensive economic cooperation agreement" with China, encompassing tariff reductions, investment guarantees, a double taxation avoidance agreement, and a dispute resolution mechanism.

14. (C) Frank Hsieh has also made general calls for relaxation of cross-Straits economic restrictions. Broader cross-Straits economic interaction seems implicit in Hsieh's "New Silk Road" conceptualization of Taiwan's economic future (Ref A), although he is constrained by the DPP's commitment to enhance "Taiwan identity." On July 11, Hsieh said in an interview with Hong Kong-based Phoenix TV that he hopes Taiwan's Straits Exchange Foundation (SEF) and its counterpart, China's Association for Relations Across the Taiwan Straits (ARATS), could immediately resume negotiations. However, Hsieh has also stated he respects Chen Shui-bian's leadership in cross-Straits affairs and will not break with Chen's mainland policy. Hsieh campaign advisors Bihim Hsiao and Kenneth Lin told the USCC that Hsieh believes Taiwan should not become "over-reliant" on investment in China as a driver of economic growth, and in fact the DPP is conducting studies to gauge the effect that Taiwan investment in China has had on Taiwan's unemployment

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and income inequality conditions (implying a negative impact). Hsieh has stated that, if elected, he would maintain existing restrictions on mainland investment in Taiwan's high technology and agricultural sectors.

KMT CROSS-STRAIT COMMON MARKET CONCEPT

15. (C) Ma and running mate Vincent Siew support creation of a cross-Straits common market, which would theoretically increase trade and investment flows in Taiwan's favor (Ref. B). The DPP has criticized the concept, claiming it would expose Taiwan to dumping of low-priced mainland products, increase unemployment, and cause a surge of illegal immigration from China. In a July 21 speech to Taiwan residents in New York, Frank Hsieh stated that Taiwan's strategic importance to the U.S. would "disappear" if Taiwan establishes a common market with China, a theme he has repeated to audiences in Taiwan. Ma has tried to counter DPP criticism by emphasizing that current restrictions on entry of mainland labor and agricultural products would remain in force if he is elected. In his meeting with the USCC delegation, Ma stated he believes a common market with China is feasible, but will require "some time" to establish, hence his proposal for a comprehensive economic cooperation agreement between Taiwan and China.

DIRECT TRANSPORT LINKS

16. (C) The candidates' positions on cross-Straits transportation are similar, although they propose different ways to achieve the same end. Ma said his top priority as president would be establishing direct cross-Straits passenger flights, and he would propose to Beijing that the current arrangement for holiday charter flights be expanded into regular weekend flights, and eventually weekday flights, within one year of his inauguration. Hsieh also supports establishing regular cargo and passenger charter flights, with the caveat that this will require resolving complex technical issues, for example defining whether cross-Straits flights are international or domestic routes. Hsieh thus stresses that resolving cross-Straits transportation issues

would require consultations at a higher political level than the current talks between private industry associations. However, unlike Ma, Hsieh has declined to propose a timeline for resolving such issues, arguing that unilaterally deciding on deadlines for expansion of cross-Strait transportation links risks provoking China to balk at further negotiations.

MORE MAINLAND TOURISTS A GOOD THING

17. (C) Both Ma and Hsieh have stated their support for the ongoing -- but now apparently frozen -- negotiations with China to expand the number of mainland tourists visiting Taiwan to 1,000 per day. (Note: Mainland tourists must fly to a transit point outside China before flying to Taiwan. In 2006, according to the Travel Agent Association of Taiwan, there were approximately 100,000 tourists from China who visited Taiwan. So far in 2007, approximately 50,000 mainland tourists have come to Taiwan, a 20 percent decrease from the same period in 2006.) Ma's public statements, however, are significantly more far-reaching than Hsieh's, as he has proposed gradually increasing the quota of mainland Chinese tourists allowed to enter Taiwan to a maximum of 3 million visits per year. His proposed schedule for this increase calls for 3,000 tourists from China per day within a year of the presidential inauguration, reaching an upper limit of 10,000 per day within four years. In contrast, Hsieh has said only that liberalizing restrictions on mainland tourists' travel to Taiwan would be a good way to break the ice in cross-Strait exchanges.

WHAT WILL HAPPEN AFTER THE 2008 ELECTIONS?

18. (C) Taiwan business executives tell us that they are optimistic that whoever wins the presidency in 2008, the next administration's economic development policies, including cross-Strait investment and trade policies, will be more pragmatic and effective than those of Chen Shui-bian's administration. These business leaders also express the view

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that Beijing may be willing to find areas for constructive engagement on economic issues with Taiwan's next president, a view echoed by the new SEF Chairman, Hong Chi-chang, in his August 30 meeting with ADIR (Ref B). Hong stated he does not expect improvement in cross-Strait relations, including economic relations, before the 2008 presidential election, but is optimistic that soon after the election, SEF and ARATS could resume negotiations on issues such as direct transportation links. In contrast, Tsai Horng-ming, Deputy Secretary General of the Chinese National Federation of

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Industries, told us on September 7 that he doubts Beijing will be inclined to work constructively with either Ma or Hsieh. Tsai, who had ties to the DPP but has also been asked by Ma's campaign team for advice on economic issues, believes neither candidate will be capable of articulating a comprehensive cross-Strait economic policy. He opined that both Ma and Hsieh's closest advisors understand campaigning, but not economic policy.

COMMENT

19. (SBU) Although they differ on the extent and pace of change, both Ma and Hsieh have publicly stated their support for expansion and strengthening of economic relations with China. Ma's more ambitious plans may hurt him politically, however, if he is seen as putting all of his economic growth "eggs" in one basket, i.e., mainland China, and sacrificing security interests. Similarly, the deep Greens are likely to seek to constrain Hsieh in his outreach to the mainland. The extent to which either candidate would be able to effect his proposed cross-Strait policy would also depend on the new president's relationship with Beijing, because any significant change in the cross-Strait economic relationship will require reciprocal effort. End Comment.

